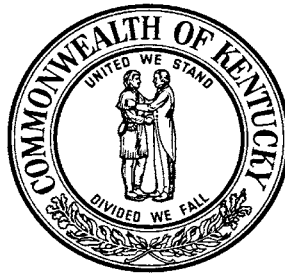


**REPORT OF THE AUDIT OF THE  
LAWRENCE COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**August 19, 2002**



**EDWARD B. HATCHETT, JR.  
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AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable David Compton, Lawrence County Judge/Executive

Honorable Bobby Workman, Lawrence County Sheriff

Members of the Lawrence County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Lawrence County Sheriff's Settlement - 2001 Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Lawrence County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**AUDIT EXAMINATION OF THE  
LAWRENCE COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**August 19, 2002**

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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
LAWRENCE COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**August 19, 2002**

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2001 Taxes for Lawrence County Sheriff as of August 19, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

Sheriff collected net taxes of \$2,890,121 for the districts for 2001 taxes. Sheriff distributed taxes of \$2,876,559 to the districts for 2001 Taxes. Taxes of \$12,045 are due to the districts from the Sheriff.

**Report Comments:**

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly.
- The Sheriff Should Deposit Funds Intact On A Daily Basis.

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.





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National Association of Tax Professionals  
Chartered Financial Officers Association

#### To the People of Kentucky

Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David Compton, Lawrence County Judge/Executive  
Honorable Bobby Workman, Lawrence County Sheriff  
Members of the Lawrence County Fiscal Court

#### Independent Auditor's Report

We have audited the Lawrence County Sheriff's Settlement - 2001 Taxes of August 19, 2002. This tax settlement is the responsibility of the Lawrence County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lawrence County Sheriff's taxes charged, credited, and paid as of August 19, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable David Compton, Lawrence County Judge/Executive

Honorable Bobby Workman, Lawrence County Sheriff

Members of the Lawrence County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly.
- The Sheriff Should Deposit Funds Intact On A Daily Basis.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -  
August 23, 2002

LAWRENCE COUNTY  
BOBBY WORKMAN, SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

August 19, 2002

	County Taxes	Special Taxing Districts	School Taxes	State Taxes
<u>Charges</u>				
Real Estate	\$ 397,675	\$ 366,415	\$ 1,152,179	\$ 370,628
Tangible	52,281	35,563	112,259	89,061
Intangible	-	-	-	23,603
Fire Acreage	5,510	-	-	-
Additional Bills	2,540	1,921	6,429	2,504
Unmined Coal - 2001 Taxes	2,467	2,045	7,148	2,298
Oil/Gas Property Taxes	12,049	9,986	34,910	11,224
Total Per Sheriff's Official Receipt	\$ 472,522	\$ 415,930	\$ 1,312,925	\$ 499,318
<u>Other Taxes and Charges</u>				
Correcting Erroneous Assessments	214	194	620	199
Penalties & Interest	5,661	5,129	16,094	5,544
Franchise Corporation	139,823	109,312	328,438	-
Gross Chargeable to Sheriff	\$ 618,220	\$ 530,565	\$ 1,658,077	\$ 505,061
<u>Credits</u>				
Exonerations	\$ 7,502	\$ 6,553	\$ 21,622	\$ 7,195
Delinquents	23,542	21,003	67,558	22,367
Unpaid Franchise	20,040	16,200	51,143	-
Discounts	5,611	4,890	15,364	6,251
Total Credits	\$ 56,695	\$ 48,646	\$ 155,687	\$ 35,813
Net Tax Yield	\$ 561,525	\$ 481,919	\$ 1,502,390	\$ 469,248
Less: Commissions*	24,152	20,482	60,096	20,231
Taxes Due Districts	\$ 537,373	\$ 461,437	\$ 1,442,294	\$ 449,017
Taxes Paid	534,779	459,354	1,495,798	446,724
Less: Refunds (Current & Prior Year)	260	267	745	245
Add: Commission Refunds From School	-	-	60,096	-
Refund Due Sheriff		**		
as of Completion of Fieldwork	\$ 2,334	\$ 1,816	\$ 5,847	\$ 2,048

\* and \*\* See Page 4

The accompanying notes are an integral part of these financial statements.

LAWRENCE COUNTY  
BOBBY WORKMAN, SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES  
August 19, 2002  
(Continued)

*Commissions:	10% on	\$	10,000
	4.25% on	\$	1,502,692
	4% on	\$	1,502,390
**Special Taxing Districts:			
Library District		\$	786
Health District			381
Extension District			439
Soil Conservation District			90
Fire & Rescue District			120
			<hr/>
Due District or (Refund Due Sheriff)		\$	<u><u>1,816</u></u>

The accompanying notes are an integral part of these financial statements.

LAWRENCE COUNTY  
NOTES TO FINANCIAL STATEMENT

August 19, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 16, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

LAWRENCE COUNTY  
NOTES TO FINANCIAL STATEMENT  
August 19, 2002  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2001 through April 15, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 26, 2001 through April 15, 2002.

Note 4. Interest Income

The Lawrence County Sheriff earned \$3,625 as interest income on 2001 taxes. As of August 23, 2002, the Sheriff owes \$1,734 in interest to the school district and \$1,891 to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Lawrence County Sheriff collected \$27,448 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lawrence County Sheriff collected \$4,347 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.



## COMMENTS AND RECOMMENDATIONS



LAWRENCE COUNTY  
BOBBY WORKMAN, SHERIFF  
COMMENTS AND RECOMMENDATIONS

August 19, 2002

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Distribute Interest Earned On Tax Collections Monthly.

The Sheriff should distribute interest earned on tax collections monthly. KRS 134.140(3)(b) requires the Sheriff to pay monthly "...that part of investment earning for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During the 2001 tax collections, the Sheriff earned interest of \$3,625 on his tax account. However, the Sheriff did not pay the interest to the board of education or the fee account on a monthly basis. As of August 21, 2002, the Sheriff owes the Common School District \$1,734 and the fee account \$1,891. We recommend the Sheriff comply with KRS 134.140(3)(b) & (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff's Response: This is already done.*

Auditor's Note: The Sheriff's response above reflects that the interest has been paid to the appropriate districts. However, it does not indicate the consideration that the Sheriff is not following in compliance with KRS 134.140(3)(d) of which interest is not being paid on a monthly basis. We want to reiterate that this comment was emphasized to the Sheriff and that it would be addressed in the audit report as a noncompliance for the 2001 Tax Settlement.

2. The Sheriff Should Deposit Funds Intact On A Daily Basis.

The Sheriff should deposit funds intact on a daily basis. According to Technical Audit Bulletin 93-002, Section 3 requires the Sheriff to deposit funds intact on a daily basis. In addition, Technical Audit Bulletin 93-002, Section 4 requires the Sheriff to reconcile daily collections to daily deposits. During the 2001 tax collections, computerized tax collection reports were not printed on a daily basis. Tax collection reports included anywhere from a couple of days to a few weeks. While deposits could be traced to tax collection reports, deposits do not appear to be made intact daily for the following reasons. The date of the deposit slips do not match the date on the check-out sheets, which is then a few weeks different from the date on the bank statement. We recommend that the Sheriff print daily tax collection reports, deposit receipts intact daily, and reconcile daily tax collection reports to daily deposits and the cash drawer.

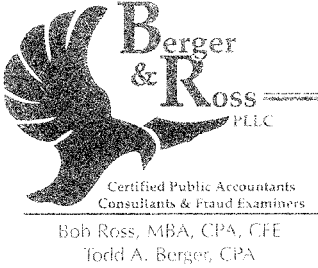
*Sheriff's Response: Deposits were delayed because of problems with checks that we received, mainly from mortgage companies.*

Auditor's Note: We understand that there is a small delay in processing mortgage company checks paid on several taxpayers' bills. However, the problem occurred on several occasions and in different times of the year. The batch bills obtained several "paid" dates, which indicated that daily check-out sheets were not prepared on a daily basis. And then the check-out sheets did not match with the deposit slip nor the bank statement dates. Some clearance is acceptable between the deposit slip date and the bank statement date but it appears that there is a large amount of time between them. Further review of other dates, than those tested, proved the same inconsistency. Therefore, the problem is not entirely due to the mortgage company checks that are processed.

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REPORT ON COMPLIANCE  
AND INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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Kentucky Institute of Certified Public Accountants  
National Board of Certified Public Accountants  
Kentucky Board of Certified Public Accountants  
Kentucky Society of Tax Professionals

**To the People of Kentucky**

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T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David Compton, Lawrence County Judge/Executive  
Honorable Bobby Workman, Lawrence County Sheriff  
Members of the Lawrence County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Lawrence County Sheriff's Settlement - 2001 Taxes as of August 19, 2002, and have issued our report thereon dated August 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Lawrence County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 19, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly.
- The Sheriff Should Deposit Funds Intact On A Daily Basis.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Lawrence County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

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Berger & Ross, PLLC

Audit fieldwork completed -  
August 23, 2002



